IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF TEXAS
TYLER DIVISION

SOVERAIN SOFTWARE	)	
	)	DOCKET NO. 6:07cv511
-vs-	)	
	)	Tyler, Texas
	)	1:30 p.m.
NEWEGG, INC.	)	March 17, 2010

TRANSCRIPT OF EVIDENTIARY HEARING
BEFORE THE HONORABLE LEONARD DAVIS,
UNITED STATES DISTRICT JUDGE

A P P E A R A N C E S

FOR THE PLAINTIFFS:	MR. GEORGE MANNING MR. KENNETH R. ADAMO JONES DAY 2727 N. Harwood St. Dallas, Texas 75201-1515
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P R O C E E D I N G S

THE COURT: Please be seated.

All right. Ms. Ferguson, if you will call the case, please.

THE CLERK: Case No. 6:07cv511, Soverain Software v. Newegg.

THE COURT: Announcements?

MR. ADAMO: Good afternoon, Your Honor.

THE COURT: Erin go bragh, Happy St. Patrick's Day.

MR. ADAMO: Do you think that is appropriate attire for Court, Mr. Adamo?

MR. ADAMO: You just cost me $10. This was the best I could do in an emergency circumstance.

THE COURT: They're fine. Ms. Ferguson has been sticking all of us with the shamrocks.

MR. ADAMO: I went for the back-up, Your Honor, under the assumption that mardi gras beads would not be acceptable here.

THE COURT: All right.

MR. ADAMO: Ken Adamo, Jones Day for Soverain Software. With me today, Your Honor, Ms. Wolanyk -- whom I am sure you are well and truly familiar with -- and two people that you have not met so far, Mr. George Manning.

MR. MANNING: Good morning, Your Honor.

MR. ADAMO: From the Jones Day Dallas office and my

partner Mr. Tom Demitrack from the Jones Day Cleveland office.

THE COURT: Okay. Very good. Thank you.

MR. YARBROUGH: Your Honor, Trey Yarbrough on behalf of the movant Newegg. Also with me is Ms. Claudia Frost, who will be presenting the motion on behalf of Newegg; Jeremy Gaston; and, of course, Mark Strachan.

THE COURT: Very good.

All right. Very well. We are here on Newegg's motion to disqualify. I think what I would like to do is hear a brief opening statement from both sides, and I then I will let each side just in normal fashion call whatever witnesses they wish to, cross-examine, and then closing arguments.

So if you would like to proceed.

MS. FROST: Good afternoon, Your Honor. Claudia Frost for Newegg. Before we proceed, we are probably going to go into today some of the contents of the declarations and some matters that we believe are confidential. There are some people in the courtroom today, whom I am not familiar with, who may not be appropriate to hear this type of information, so I don't know whether all of these people are Jones Day people or who they might be.

THE COURT: Mr. Adamo, can you provide Ms. Frost with any introductions or help in that regard?

MR. ADAMO: Of course, Your Honor.

Ms. Frost, I believe the gentleman sitting at the

end is Mr. Finkelstein. Immediately to his left is my partner Ms. Galvan. And immediately to her left is my partner Mr. Conrad. And the last two people on the end don't need introduction. That's Mr. Roth and the smartest person in his office.

MR. ROTH: Amanda Abraham.

MR. FINDLAY: Your Honor, Eric Findlay. I represent Vista Print and QVC in some subsequent Soverain litigation and was here out of interest that this proceeding might involve our case. I have an interest in being here --

THE COURT: Who else do we have back here?

MS. FROST: Our clients are here, Mr. Lee Cheng from Newegg and Mira Wolff from Newegg.

THE COURT: All right. Is there anyone that you object to for the whole proceedings, or do you just wish to have them excluded when you get to a part that you would consider confidential?

MS. FROST: I think it would appropriate to just exclude them at a certain part rather than the entire proceeding.

THE COURT: I will leave that up to you to let us know when.

MS. FROST: Thank you, Your Honor.

MR. ADAMO: Your Honor, just so it is clear on the record that neither Ms. Galvan nor Mr. Conrad are part of the

Soverain software trial team if it becomes important at a later point. Actually the only member of the trial team that you usually see on this case that is here today is me.

THE COURT: Very well.

MS. FROST: Before we begin I would like to let the Court know how I intend to make my opening remarks today and how I would like to proceed, if it would be appropriate with the Court. We have brought the witnesses Mr. Cheng and Ms. Wolff pursuant to the Court's order. We have crafted the declarations that we have submitted in the case mindful of this Court's precedent as well as that of the Fifth Circuit to try to provide sufficient information to establish the substantial relationship test and also to establish that confidences were, in fact, shared.

We admit that that exercise is sort of a "Goldilocks" exercise in some respects. But we don't think ours are too hot or too cold; in fact, we think they are just right and they do, in fact, establish the substantial relationship and the sharing of confidences on their own.

I thus plan to make my argument based on -- principally on those declarations. And at the end of my argument -- which I will try to make as short as possible -- I hope that I will have eliminated any questions that this Court might have beyond the scope of those declarations.

THE COURT: Okay. Now, is this for your opening

statement?

MS. FROST: No, this -- yes, for my opening statement. You mean is what I am saying now my opening?

THE COURT: Yes, is this your opening statement?

MS. FROST: No, I am just asking if I could proceed in this fashion and let you know what my plan is. I am planning to use the declarations principally.

THE COURT: Well, what I had intended -- I have read the declarations. But what I would like for you to do is to give a brief opening statement of whatever you would like to, about five minutes or so, and then call whatever witnesses you would like to call. And you can move in summary form through some of the information but then give an opportunity for cross-examination based upon your examination of witnesses. And we will conduct it just like a trial.

MS. FROST: Well, I will proceed in that fashion, Your Honor, of course. The reason, of course, I suggested that we rely muchly on the declarations is because Jones Day is representing itself here. We are somewhat concerned about going into the provision of further disqualifying confidential information in order to protect our confidences. But mindful of that, I will proceed as Your Honor suggests.

THE COURT: All right.

MS. FROST: Whether analyzed under the substantial relationship test where sharing confidences between Newegg and

Mr. Finkelstein is irrebuttably presumed or by application of other ethical rules because relevant confidences were, in fact, shared by Newegg with Mr. Finkelstein, Newegg has met its burden of proof that Finkelstein is personally and Jones Day is vicariously disqualified from representing Soverain in this case.

In response to Newegg's arguments Jones Day asks this Court, as it must, to ignore the law of this Circuit and this state and adopt a new rule seeking the result that it desires to achieve. That rule is that if an ethical screen is belatedly erected, a law firm can be adverse to a former client of one of its current partners in a substantially related matter. That rule has not been recognized by the courts in Texas or in the Fifth Circuit nor is it one that is consistent with any established set of national, legal ethics, standards or norms.

Indeed, the ABA Model Rule on which Jones Day depends, does not qualify as a national norm that this Circuit would accept because it has not -- it departs from -- substantially from the rule in 39 jurisdictions, including this one.

Finally, the result Jones Day is seeking requires the Court to bend and go even beyond the scope of that very rule, the ABA Model Rule, its specific notice and timing requirements that Jones Day did not comply with. Moreover,

Mr. Finkelstein had obligations to Newegg that he did not comply with. Accordingly, the Court should decline to accept Jones Day's invitation to chart this unprecedented legal course.

We believe that we have demonstrated aptly the existence of the substantial relationship test and met the substantial relationship test in our declarations. We have established, it is undisputed, an actual attorney/client relationship between the moving party and the attorney. We are seeking to disqualify as well as a substantial relationship between the subject matter of the former and present representations.

Indeed, that a substantial relationship exists, we submit, is axiomatic because here the former representation actually involved disclosures and risk assessments of the present case.

THE COURT: But isn't that really the gist of the matter? Don't we have a dispute, a factual dispute as to that, because as I read the declarations, there is a fairly different interpretation between Mr. Cheng -- I believe it is -- and Mr. Finkelstein?

MS. FROST: Yes, Your Honor, there is a factual dispute about what was exchanged. But there is not a factual dispute that the Soverain litigation was part of Mr. Finkelstein's -- and risk assessment of appropriate risk

factors to be disclosed with respect to the Soverain litigation was not part of Mr. Finkelstein's obligations and responsibilities to Newegg in that representation.

Clearly, Mr. Finkelstein says -- his declaration makes plain that among the matters that were discussed, included this case, and he indicated on the December 10th call in particular -- and I am looking at his declaration at Paragraphs 14 and 15, he indicates unequivocally there that the Soverain litigation was discussed on both due diligence calls. And specifically he recalls talking the case and asking questions about the case on the December 10th call.

His declaration states clearly, Your Honor, that the purpose of the discussion and the requested information on that call was to determine what disclosures should be made in the IPO documents regarding the intellectual property issues and litigation issues and in particular risk factors that needed to be publicly disclosed. Newegg's disclosure of such risk factors for consideration by Mr. Finkelstein in order to determine which ones needed to be disclosed, are precisely the types of confidential disclosures that the attorney/client relationship is designed to protect.

Because of the substantial relationship, Your Honor, though, you don't need to go into the actual substance of the confidences. The Court -- indeed the Court's precedent provides that once it is established that prior matters are

substantially related to the present case, the Court will irrebuttably presume that the relevant confidential information was disclosed during the former period of representation. Any effort by Mr. Finkelstein to disavow the receipt of confidences, therefore, should be ignored for that reason alone. The American Airlines case, and among many others, makes that plain.

Indeed the Court there indicates that once a lawyer has given advice in a substantially related matter, he must be disqualified whether or not he has gained confidences.

Under controlling law applying the substantial relationship test, Mr. Finkelstein is personally disqualified from representing and would not be permitted to represent Soverain in this litigation. That is the first test. And clearly he would not be able to represent Soverain in this litigation because of the information that he obtained and the substantial relationship that exists between his work for Newegg while he was at Latham & Watkins on the IPO and the litigation here.

The next issue is whether Jones Day itself must be disqualified because Mr. Finkelstein is now a partner there. Fifth Circuit law, Texas law, federal common law and national standards will all impute Mr. Finkelstein's confidences and conflicts of interest to Jones Day. ABA Model Rule 1.10 will impute it. The Texas Disciplinary Rules of Professional

Conduct 109(b) will impute it. It is well established under Texas law that when a lawyer is privy to client confidences related to an ongoing matter and then joins another law firm which represents an adverse party to that same ongoing litigation, the law firm must be disqualified. Federal law is also in accord. There is indeed an irrebuttable presumption that confidences retained by an individual lawyer will be shared with other members of his firm.

There are two exceptions to that rule, neither of which apply here. Both of them involve double or some form of imputation. When the lawyer who has left the firm, the first firm, the lawyer who has represented the client -- the lawyer who leaves the first firm has not represented the client. When he has not represented the client himself or gained any confidences, then when he leaves the firm and goes to another firm, the confidential information and the conflict doesn't travel with him. It is not a burden on him.

But if, as in this case, Mr. Finkelstein had the attorney/client relationship with Newegg, he did obtain confidences either actually or presumptively, when he leaves his firm, they go with him; and they follow him wherever he goes.

The Fifth Circuit has recently affirmed in the Pro Education case that the determinative principle that should be applied in this case. And that is if an attorney is currently

affiliated with a personally disqualified lawyer, that attorney is conclusively disqualified by imputation while he remains at his firm. Well, this case, of course, makes our point. Because Mr. Finkelstein is personally disqualified, he is not disqualified by imputation, he is not disqualified because somebody else at Latham represented Newegg. He represented Newegg. Because of that reason, all members of any firm he would be affiliated with, including Jones Day, are conclusively disqualified by imputation.

Now let me address two things very briefly. One is that Jones Day's contention that even though the presumption -- even if the presumption were rebuttable that there were -- or irrebuttable, that there would be an ethical screen available that they could use under ABA Model Rule 1.10 and the amendment of it as of February 2009.

First of all, it is our position that as long as it is recognized that the presumption is irrebuttable -- which the Fifth Circuit recently affirmed that it is -- there is no need to consider the ethical screen because it is inconsistent -- the model rule is inconsistent with the Fifth Circuit's precedent.

Nonetheless, I will briefly address it because an ethical screen is simply ineffective under any circumstances. Texas law and the Texas Disciplinary Rules do not recognize one. The Fifth Circuit has never recognized one. And since

the ABA's Model Rule was passed in February of 2009, that Model Rule has not been adopted by any state. Indeed, it is a very controversial rule, and a minority report was submitted to and published with the rule when it was passed. It provides that the rule itself departs substantially from the applicable ethical rule in 39 jurisdictions.

Jones Day acknowledges that in deciding disqualification issues, this Court should look to national norms. And we agree. But a rule that has not been passed by any state, has not been recognized in this Circuit, and that departs from the rules of 39 states, surely cannot represent the national standard or norm. Accordingly, the Court should decline to follow that rule.

Even if the Court were to choose to depart from it and depart from established law and follow this rule, it wouldn't make any difference in the outcome of the case. Comment 7 of the rule makes clear that the rule doesn't apply unless certain specific procedures are followed. They were not followed in this case.

Before Mr. Finkelstein began work at Jones Day, Jones Day knew that he had represented Newegg at Latham and that it involved the Soverain litigation. Jones Day didn't erect an ethical screen before Mr. Finkelstein arrived. Indeed it didn't do so until Newegg's Counsel called to meet and confer about this very motion. And that was simply too

little too late.

Jones Day's own procedures through Exhibit 1 to the Callahan Declaration indicate that when available as a means of avoiding imputation, screening procedures must be in place prior -- typically must be in place prior to a new lawyer's start date.

In any event, this Court should not go out on a limb for Mr. Finkelstein or for Jones Day in this case. Mr. Finkelstein and Jones Day knew early on in their courtship that they had serious ethical issues which they discussed among themselves but never revealed to Newegg or its Counsel.

Indeed, the ABA report that issued when the amendment to the model rule was passed, condemns the very conduct of the parties in this case. It observed that a lawyer's move from one private firm to another almost invariably requires confidential discussion between the lawyer and the new firm before the lawyer terminates her prior relationship to determine whether or not the move will be in the lawyer's and the new firm's best interest.

If the lawyer is representing a client adverse to a client in the new firm, the lawyer must inform the client of her intention to begin discussions with the new firm because the personal interest of the lawyer in changing firms creates a conflict under 1.7. Thus, the report concludes, screening is therefore of principal utility in cases where the lawyer's

role in the prior representation is concluded.

That did not happen here. Mr. Finkelstein did not ever mention his intention or his -- seek consent for leaving Latham and going to Jones Day, the known opponent of his client Newegg in this very significant IP matter to Newegg in connection with its IPO.

In light of the breaches of confidence that have already occurred in this case, any fear by Newegg that an ethical screen would not be efficacious even if it were applicable is reasonable. The report notes that the Court is free to object if the efficacy of a screen called for under the rule, if it is reasonable under the particular circumstances for the former client to fear that a screen may not be effective.

For these reasons and others we will explain, we request the Court to disqualify Jones Day.

THE COURT: Okay. Thank you.

Jones Day.

MR. ADAMO: Your Honor, Mr. Demitrack will address the Court, and probably in a few minutes I will explain why.

THE COURT: Okay.

MR. DEMITRACK: Good afternoon, Your Honor. I will be brief because I know the Court wants to hear from the declarants. We do agree with Newegg that they bear the burden of proof. This Court in the Microsoft case has indicated that

attorney disqualification rules are not to be mechanically implied. We also agree with Newegg that federal law applies. That federal law that is most appropriate here is the Fifth Circuit decision in Pro Education which made clear that the statement in the American Airlines case about irrebuttable presumption, was dicta.

And in thinking about this issue, it is important to keep in mind that there are multiple presumptions that are involved in a disqualification motion, and it is easiest to see that Your Honor if you think about the applicable rule, 1.9. The applicable rule says that there is a two-step process.

And the process is: First, has the individual attorney either acquired or should he be presumed to have acquired confidential information of the adverse party? That is the first presumption. The second presumption is whether that information should be imputed to the other attorneys at the firm.

Now, if we go back to the first test or the first step of the disqualification analysis, the movant has to show -- and I am paraphrasing from the Court's Microsoft opinion -- that the attorney either actually acquired specific confidential information, or secondly, should he be presumed to have acquired it?

That second presumption, should the attorney be

presumed to have acquired it, comes from the so-called substantial relationship test. And as the Court is aware, the substantial relationship test come from a case back in the '40s, the Theater case. And it is designed to act as a surrogate for not requiring the aggrieved party to actually present the confidential information.

And what the test says is, look, if the case of the prior representation is substantially related, we will presume the passage of confidential information. In this case and in their briefs, Newegg did not argue that portion of Step 1 of the analysis. They simply didn't argue it. And the reason is pretty clear. No way could they have shown it. Mr. Finkelstein never represented Newegg in any litigation, let alone this litigation, nor did Latham.

What Mr. Finkelstein did is to spend about ten hours reviewing due diligence inquiries in connection with an IPO. Factually, not similar -- that's Step 1 of the three-part test that this Court applied in Microsoft for the purposes of determining substantial relationship -- no similarities between the legal issues. And the third part of the test involves an analysis of the nature and extent of the attorney's involvement. Was the attorney substantially, critically involved in that prior matter? Ten hours is not enough.

So we get then to what Newegg focused on to show

that the attorney either acquired or should be presumed to have acquired confidential information, and that is to actually prove the passage of specific confidential information. They did not meet that burden either, Your Honor, and we, respectfully, submit that they have recently affirmatively disclaimed any intent to rely on the passage of actual confidences.

Your Honor received yesterday a stipulation between the parties. And that stipulation arose out of a request by Soverain for the notes, documents, and other materials either at Latham or elsewhere relating to this motion. And in response to that, Newegg wrote an email and indicated to us that those documents were irrelevant; that is, the content of the communications that we could have cross-examined their witnesses on and used to support Mr. Finkelstein's testimony were not relevant because the content of the communications was irrelevant.

Having now taken that position, Newegg, we respectfully submit, can no longer base its argument on the content of those communications, especially given this Court's articulation of the standard in the Microsoft case that there must be the identification of specific, confidential communications. They cannot have it both ways.

In Microsoft this Court indicated that the movant has the burden to delineate with specificity what confidential

information was shared. They can't go halfway and say there was something and respond to our request for the documents and say we are not going to give them to you because they are not relevant. So for that reason alone -- they did not brief substantial relationship, they took the position that the passage of actual confidences was not relevant, we submit the motion ought to be denied.

However, even if the Court allows the testimony -- and we are perfectly prepared to proceed with that testimony, Your Honor -- Newegg cannot meet its burden. The testimony of Mr. Finkelstein, which Your Honor will hear from this afternoon, will indicate that he worked on one matter, this due diligence. He spent about ten hours on it. He had two telephone calls. The first of those calls, the one to which Counsel pointed on September -- in September, the earlier -- the first of the calls, was a call in which Mr. Finkelstein was asking questions about 40 cases involving Newegg.

And the purpose for doing that, as is the purpose of any time an attorney is conducting a litigation due diligence, is to understand whether the case ought to be disclosed. It is a risk factor analysis; and for the purposes of that as Mr. Finkelstein will explain, you rely on the worst case outcome. You don't care -- you are not weighing the evidence to see who was right or who was wrong. You are relying on the worst case analysis. What is it that Soverain is saying in this case

should be disclosed?

Indeed, Mr. Finkelstein was not in the protective order in this case. He couldn't have reviewed as a licensed attorney any of the documents in this case. And he didn't. And he didn't.

The second call was another due diligence call, and he was asked specific questions about should the disclosure be changed now that the case is closer to trial. Public information -- and, by the way, at both of those calls underwriters' counsel was present. Indeed, the first call was scheduled by underwriters' Counsel. It was their call-in number. They were the host for the call. That was not a privileged communication in the first place. The notion is just implausible that not having any access to any documents, not being allowed at the Protective Order to look at documents, sitting in a communication where people outside of his client are present, that there would have been a disgorgement of all of the strategies of this litigation, all of which, by the way, are known now because they are part of the Final Pretrial Order, is just not credible.

I know we want to get to the testimony. Let me just get very quickly, the second part is -- there is a second presumption. That is, let's assume that Mr. Finkelstein, in fact, had specific confidential information. Should his knowledge be presumed to have extended to everyone else at

Jones Day once he arrived? His testimony will be clear. Other than what he did for the purposes of clearing his -- or evaluating conflicts before he joined the firm and other than working with me and others assigned by the firm to defend against this motion, he has talked to no one at Jones Day about this litigation.

Jones Day, from its perspective, did what it should have done. It had a procedure, a pre-existing procedure for screening and clearing lateral lawyers coming to the firm. It followed that procedure here. The offer letter from our managing partner made it clear you have to clear conflicts before you can come.

Mr. Finkelstein received a conflicts form. He completed it. He listed over 150 matters. He listed the Newegg matter. He was asked about the Newegg matter because the person conducting the analysis at Jones Day was aware that we represented Soverain. He was told by Mr. Finkelstein, consistent with the testimony you will hear today, that Mr. Finkelstein had no confidences. He was simply looking at public information and conducting a due diligence analysis. Jones Day did what you would expect it to do, it made the decision that there was no ethical reason that Mr. Finkelstein couldn't come.

As soon as Newegg raised the issue -- and actually they raised the issue just a few hours before they filed their

motion -- we immediately put up a screen, not because we were required to under the rules but just out of an abundance of caution in case anyone would question our motives. Mr. Finkelstein received the screen, he signed it, and he has kept it with his assistant. He has abided by it since then.

And the Fifth Circuit in Pro Education, and in the Carbo-Chem case in the district court has indicated that the presumption -- the second presumption of the passage of information to others in the law firm can be rebutted. Here, Your Honor, we believe that it has been. We have demonstrated it has been. We respectfully submit that the motion should be denied and now we look forward to hearing from the testimony.

Thank you.

THE COURT: All right. Ms. Frost.

MS. FROST: Your Honor, to proceed in the fashion the Court please, I call Mr. Cheng.

THE COURT: Let me just ask any witnesses that are going to testify if you would please raise your right hand, identify yourself by name beginning, Mr. Adamo, with you --

MR. ADAMO: No, I rose for another reason.

THE COURT: All right. Mr. Finkelstein.

MR. FINKELSTEIN: Mark Finkelstein.

MR. CHENG: Lee Cheng.

MS. WOLF: Mira Wolff.

THE COURT: Okay. Ms. Ferguson, if you would please

administer the oath.

(Witnesses sworn.)

THE COURT: Any request to invoke the Rule?

MR. ADAMO: Yes, Your Honor, Soverain Software requests the Rule to be invoked.

THE COURT: The Rule has been invoked. All of the witnesses are excluded from the courtroom. You all understand what the Rule is, don't you? The Rule? That you shall not discuss the case among yourselves or anyone else other than Counsel involve in the case during the course of these proceedings.

MR. FINKELSTEIN: Thank you, Your Honor.

THE COURT: Everyone except Mr. Cheng. You will be the first witness, Mr. Cheng.

MR. ADAMO: Your Honor, I rise at this point just to explain again further caution that Mr. Demitrack has outlined to the Court that the reason that Mr. Demitrack, besides the fact that he is the firm's conflict expert and Mr. Manning right here besides the fact that I report to Mr. Manning, is because I am Lead Counsel in this case and I am behind an ethical wall. I don't want there being any issue as a result of the testimony that is going to be given here today, which I understand in view of this being an evidentiary procedure this now has to be the evidence that persuades and carries their burden because the declarations effectively have to be trumped

because this is an evidentiary procedure, as I understand the law. I don't want to be in the courtroom and inadvertently get caught in a corner.

THE COURT: You are excused.

MR. ADAMO: Thank you. I appreciate it. I just wanted to make a statement of record that I wasn't being disrespectful --

THE COURT: All right.

MR. ADAMO: -- in leaving the courtroom.

MR. MANNING: Thank you, Your Honor. It makes my life easier.

MR. ADAMO: Can the record note that I heard that?

THE COURT: All right.

MR. CHENG: Thank you.

(Mr. Ken Adamo, Mr. Brad Conrad Mr. Carl Roth, and Ms. Amanda Abraham leave the courtroom.)

(THIS PORTION OF THE TRANSCRIPT IS UNDER SEAL AND FILED UNDER SEPARATE COVER.)

(End of SEALED portion of the transcript - Excused parties return to the courtroom.)

THE COURT: All right. Y'all come on.

MR. ADAMO: Sorry, Your Honor.

MS. FROST: Old friends.

MR. ADAMO: I was just asking Counsel if she was going to say anything I shouldn't hear.

THE COURT: No.

MR. MANNING: We cleared that.

MS. FROST: Your Honor, I will be brief.

THE COURT: All right.

MS. FROST: I think there are a couple of points that I wanted to refute very briefly from their opening statement just so that the record is very clear about it. Their notion that the substantial relationship test was not raised by us in our papers is completely wrong. Look at our motion at Page 5 where we raise it.

Any suggestion that we waived the basis for disqualification based on an exchange of confidential information by our refusing to provide the underlying documents that support these declarations, here again, is also wrong. This Court and the Fifth Circuit have repeatedly held that the underlying documents need not be introduced in order to prove either prong of the disqualification test and the substantial relationship test or the sharing of confidences, so we don't have to produce any further confidential information to protect the confidential information that we are seeking to protect.

Our evidence, the declarations alone and the declarations with the testimony from today, prove beyond peradventure that the substantial -- there is a substantial relationship that exists between the prior representation of

Mr. Finkelstein of Newegg and the current litigation. It is plain that the current litigation was a focus of and feature of the relationship between the parties and the discussions that they had about the matter.

Jones Day raises a few arguments about why that substantial relationship should be ignored. One is that -- or that the confidential exchange of information should be rebutted or refuted, and that is because the information is public. Well, the fact that information that is disclosed between a lawyer and his client is public, for disqualification purposes, is irrelevant. The American Airlines case has flatly rejected that very argument made by Vinson & Elkins back then in connection with the disqualification motion filed against it by Northwest -- or for Northwest.

The fact that the information is shared with others is also irrelevant. The Corrugated case makes that plain. Moreover, here there is no issue that everyone on the calls was on a non-disclosure agreement or otherwise had confidential agreements with Newegg and confidential relationships with Newegg, so that is not an issue.

Similarly, they suggest that because Mr. Finkelstein spent a relatively short period of time on the matters, that he can't possibly have enough confidential information to justify Jones Day's disqualification. That has also been

flatly rejected by the Carbo case they rely on their brief and in the case at Page 162.

Moreover, any doubts between when there is a conflict in the testimony should be resolved in favor of disqualification.

Finally, the confidential information is -- the confidential information that is used in the ethical rules and the law in what we are talking here does not have to rise to the same level as trade secrets or proprietary information or attorney/client privileged information. The confidential information that the rules and the law refer to is information that is disclosed by the client to his lawyer. And that is because the substantial relationship test and the rules have as their bedrock principles the duty of loyalty, as well as the protection of confidence.

Because of Mr. Finkelstein's work for Newegg and confidences that he either presumptively or actually obtained, he is personally disqualified from representing Soverain in this case. Because Mr. Finkelstein is now a partner at Jones Day, Jones Day is disqualified, too.

This is the second presumption that we discussed in -- Jones Day's Counsel discussed in their opening. Jones Day says this presumption is rebuttable. Newegg says it is not. It is irrebuttable.

Jones Day identifies the Pro Education case from the

Fifth Circuit as the most important case on this point. We also agree that it is a very important case on this point. And why? Because it reaffirms the very rule that compels the conclusion that Jones Day must be disqualified in this case.

In the interest of time and because the Court is so familiar with this, I am not going to dwell on it much. The Court knows there are two types of disqualification; one that is based on imputation and one that is based on actual representation and confidences. What we are dealing with here is the second kind, the kind that is based on actual representation and confidences.

The American Airlines case and the Corrugated case are the leading Fifth Circuit cases that have held that there is an irrebuttable presumption that a lawyer will share confidences with other members of his firm. The exceptions that are recognized to those cases deal with the type of confidence, the type of relationship where the confidential information is gained by the lawyer by imputation only. He does not have any client relationship with -- or attorney/client relationship with the client and does not have any actual exposure to confidential information.

That is an entirely different situation than the one we have here. Clearly, Mr. Finkelstein admits everyone knows he was Newegg's lawyer, he received information, presumptively or actually. He has the second kind of disqualification.

That kind of disqualification cannot be irrebuttably refuted. It cannot be walled off. It cannot be waived unless the client consents. It cannot be obliterated.

Simply put, the Pro Education case established and reaffirmed the principle that if an attorney is currently affiliated with a personally disqualified lawyer, that attorney is conclusively disqualified by imputation while he remains at that firm. That case could not be any clearer. That is the Fifth Circuit last year.

As a result of that, Mr. Finkelstein is personally disqualified, not by imputation, because of his work for Newegg and his relationship. As a result, all members of the firm that he is affiliated with, are conclusively disqualified by imputation. It could not be any clearer under that case.

Now, Jones Day has suggested in its papers and just a bit today that they can use the ABA Model Rules as the basis for erecting an ethical wall and use that to rebut or otherwise ameliorate the harm that comes from the imputed sharing of information that the law requires. Well, that is completely wrong. As I mentioned before, the minority report to the Model Rules indicated that they are not national norms. Indeed, they depart substantially from the rules in 39 jurisdictions. And if I may provide the Court with a copy of the minority report, you may find it of interest.

(Document given to Court and Counsel.)

MS. FROST: It is not possible for a rule that departs from such common standards to be deemed a national norm.

In addition, the rule that an ethical wall can affect the presumption and be appropriate to cure a disqualification like this has been flatly rejected in Texas in the Petroleum Wholesale case and has never been recognized by the Fifth Circuit, nor would it be recognized by the Fifth Circuit because the Fifth Circuit continues to adhere to the notion that there is an irrebuttable and conclusive presumption that if a lawyer has confidences, he shares it with other members of his firm by operation of law. An ethical wall is inconsistent with such a legal principle and such a notion.

Even if for some reason the Court were to entertain the notion that an ethical wall might be efficacious under the circumstances, they didn't even comply with the very rule they cite that they say should allow them to do that. The rule specifically requires the parties to give notice and set up a wall when the lawyer starts work. This wall wasn't put up until March 1st; afterwards.

As we have heard today, Mr. Finkelstein has been talking to Jones Day all fall. The notion that somehow an ethical wall erected on March 1 is going to give any effort and prevent any harm, is beyond the pale.

Moreover, Mr. Finkelstein himself, according to the ABA Model Rules and the commentary when they passed them, the rules are controversial -- this new rule is controversial. It has never been adopted in Texas or any state or the Fifth Circuit. But when it was passed there was a lot of commentary about it because of its controversy. One of the things that the commentators wanted to be sure that did not get lost in this was what happens when a lawyer moves from one private firm to another and the things we have heard about today that surround that type of a relationship and that type of a move. As the commentators noticed, a lawyer's move from one firm to another invariably requires some disclosure and discussions between the lawyer and the new firm about whether the clients have confidences, whether there are conflicts of interest, and the like.

If the lawyer -- and this the commentary acknowledges -- if the lawyer is currently representing a client adverse to a client of the new firm -- clearly that is the case here -- the lawyer must inform the client of her intention to begin discussions with the new firm. That never happened here. The reason he has to do that -- or she -- is because the personal interest of the lawyer in changing firms creates a conflict of interest itself. The rules, therefore, suggest that screening is a principal utility in cases where the lawyer's role in the prior representation is concluded.

This is not a prior representation that has been concluded. This was an ongoing representation at the time these discussions were being had. It is a clear violation.

The rules note that the Court can disqualify a firm when it is reasonable in the particular circumstances for the former client to fear that a screen may not be effective. It is here in this case that Newegg has a reason to fear that such an ethical wall would not prevent disclosure of its confidences. It is here where their lawyer was talking to their adversary's law firm about accepting a job there as a partner in the IP group at the same time he was getting confidential information and seeking new business from that same client. Jones Day must be disqualified and as would Mr. Finkelstein be if it were just him.

THE COURT: Thank you.

Response?

MR. DEMITRACK: Your Honor, I will try to be very brief. I know the time is late.

I want to respond in particular first to this last comment that it was a violation of the Bar rules for us -- for Jones Day to discuss with Mr. Finkelstein what he was working on as part of the conflicts clearance process. And you heard Counsel just say that in and of itself was a violation. In fact, they elicited testimony on that point from both witnesses.

There is an ABA formal opinion directly addressing this topic. I don't have the number of it -- we can supply it to the Court as early as tomorrow -- that specifically discusses what do law firms do when they are hiring a lateral lawyer. And that opinion expressly says that you can disclose information for a limited purpose of allowing the law firm to decide whether there is a conflict of interest. Jones Day complied with that ABA formal opinion.

The notion that it is a violation of the rules of responsibility for a lateral lawyer to go to a law firm and for that law firm to sit blind and dumb and not ask any questions is wrong. You have to do that. You have to decide if there is a conflict. You have to make these inquiries. You have to provide the conflict forms that we did. That has to happen, and the ABA formal opinion specifically recognizes that very fact. It is simply not the truth.

There are two ways that Mr. Finkelstein can have a conflict of interest. One, there is a substantial relationship; and, second, if there was the imputation -- or the provision of specific confidential information as Your Honor's Microsoft decision indicates. The notion that a due diligence on an IPO is substantially related to this litigation, is ludicrous. There is no legal similarity. There is no factual similarity. And there certainly wasn't a deep and ongoing involvement in this litigation. Even

assuming they brief that issue, they have completely defaulted on their proof.

I indicated at the beginning that with respect to the specific confidential information aspect of it, that Mr. Finkelstein would testify that the due diligence he did here was no different than the due diligence activities that he has done 20 or 30 or 40 other times; that what he is looking for is to conduct a risk analysis. What is the worst case -- those were his words -- what is the worst case that is out there? To do that, as he consistently said, you look to see what the other side is saying. What is the worst that can happen to you?

And he did that not just with the Newegg case, he did that with about 40 other cases. He went through all of them, and the only one that came to the top that was disclosed was the Newegg case. But to do that, like all of the other ones -- investigations in due diligence he had ever done -- it was specifically focused on what did the plaintiff say. There was no disclosure of trial strategy, order of witnesses, what it was that Newegg would want from this case, or anything of that nature.

With all respect, Newegg did not prove that element of their case in particular, given the fact that they conceded that the confident -- the discussions were irrelevant and would not even log for us the existence of notes that would

have corroborated our position, we believe they failed their burden of proof.

With respect to the issue, even assuming you accept the passage of actual, specific confidential information, the American Airlines case and the statement in that case about this second presumption, does the imputation go to the rest of the firm, this is what the Pro Education case said about that. "In declining to consider Kennedy's evidence, the bankruptcy court relied on In re American Airlines for the proposition that the Fifth Circuit applies an irrebuttable presumption that confidences obtained by an individual lawyer will be shared by other members of the firm; however, the American Airlines case did not actually involve or apply this presumption, so any statements regarding the presumption are dicta."

The Fifth Circuit has not applied an irrebuttable presumption standard. It has said that the national standard, the ABA standards are applicable, and the ABA standards now allow for screening, even assuming, even assuming there was a reason to screen here. In this case Jones Day had no reason to screen because after conducting a very careful -- it took several weeks -- review of Mr. Finkelstein's matters in asking him questions, Jones Day reached the conclusion that he had no confidential information and, therefore, there was no reason to screen. The only reason we put a screen up was in

connection with the motion to disqualify and just to avoid any possible issue.

Newegg says they have reason to fear that Mr. Finkelstein now a partner at Jones Day will disclose confidential information. First, he doesn't have any. Second, and with all due respect, it is borderline offensive, Your Honor. We have a screen in place. Mr. Finkelstein has not talked to anybody in the past about this case. The suggestion that he would violate the screen having testified under oath that he would not do so, quite frankly does not rise to the level of evidence that should be accepted in this case.

Finally, Newegg argues that any doubt should be in favor of disqualification. That, we respectfully submit as I indicated in my opening, is not the standard. This Court said that the rules should not be mechanically applied, and the Pro Education case talks about depriving counsel of their choice is not a remedy that should be easily applied here.

Even if you accept -- and we do not -- that they have shown the passage of actual confidences and even if you accept -- which we do not -- that there is an irrebuttable presumption that ought to be applied here, that the confidences are imputed to everyone else in the firm, the question still remains under the Pro Education standard whether disqualification of Soverain's Counsel on the eve of

trial whether there is zero evidence that any improper communications were transmitted as a matter of fact, ought to take place. We, respectfully submit, it should not.

And, therefore, Your Honor, for all of these reasons we respectfully request a denial of Newegg's motion. Thank you.

THE COURT: All right. Thank you. Your motion is submitted. The Court will get you an order as soon as possible.

MR. ADAMO: Thank you, Your Honor.

MS. FROST: Your Honor, may I substitute a document for you, the minority report? I'm not sure I gave you the full set.

THE COURT: Okay.

MS. FROST: It also has ABA rules that I referred to.

THE COURT: Ms. Ferguson, will you substitute that, please.

Be in recess.

(Hearing concluded.)

C E R T I F I C A T I O N

I certify that the foregoing is a correct transcript from the record of proceedings in the above-entitled matter.

/s/ Shea Sloan

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